



## 2012 Legislative Update

The 2012 Hawaii State Legislature has passed three bills affecting the ERS. Below are summaries of the new laws. For more information on this and other legislation, you may visit the Legislative website at: [www.capitol.hawaii.gov](http://www.capitol.hawaii.gov).

**Act 152 (SB 1269)** – Amends the definition of “compensation” for new ERS members after June 30, 2012 – Effective June 30, 2012:

- *Amends the definition of “compensation” under HRS § 88-21.5 for new ERS members after 6/30/2012 for the purposes of ERS benefit calculations*
- *Compensation will essentially be defined as normal periodic payments, including shortage differentials and DOE 12-month differentials*
- *Compensation will not include overtime, supplemental payments, bonuses, lump sum salary supplements and other types of differentials*

**Act 153 (HB 2487)** – Corrects sections related to the new benefit structure effective July 1, 2012 and also addresses the unexpected increases in retirement benefits for some members of the ERS and the resulting increase in the unfunded liability of the System by requiring the retiree’s last employer to pay the costs attributable to “pension spiking” – Effective July 1, 2012:

- *Harmonizes ordinary disability and ordinary death benefits for new members of the ERS with their service retirement benefits*
- *Makes consistent through all types of credited service, the years of credited service component utilized in the average final compensation formula*
- *Requires the retiree’s last employer to pay the additional costs resulting from sudden increases in the member’s non-base pay during the member’s final years of employment*

**Act 72 (SB 2751)** – Includes the requirement that two members of the ERS Board of Trustees shall have at least three years of investment experience – Effective April 24, 2012:

- *Amends HRS § 88-24 to require that at least two of the ERS Board of Trustees’ three appointed trustees have at least three years of experience providing financial services, including investments, to public, corporate or private institutional clients*

Information on the benefit effects of Act 152 for Hybrid and Contributory members have been updated in our “Your Employees’ Retirement System” brochures available on our website under the “Active/New Hire” link under the “Members” tab. For employers, information on Acts 152 and 153 are available at the “Employer Information/FAQ’s” link under the “Employers” tab at our website: <http://ers.ehawaii.gov>

### ERS Board of Trustees:

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Wesley K. Machida

*Assistant Administrator*  
Kanoë Margol

*Chief Investment Officer*  
Rodney L. June

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## Wes' Corner



We are pleased to report that the ERS received a favorable determination letter from the Internal Revenue Service that permits the ERS to continue with its tax-exempt status, subject to statutory and administrative rule changes that are required within the coming year. This tax-exempt status allows the ERS and its members to experience favorable treatment over the federal income tax requirements.

The 2012 Legislative Session is over and we made an important step in helping with the funding situation. I am extremely thankful for the Board of Trustees' and legislators' efforts and leadership in addressing the ERS' pension and unfunded liabilities. The goal is to ensure a sustainable ERS. Although we may not realize a significant impact to the pension and unfunded liabilities (which are currently reported at \$20 billion and \$8.2 billion, respectively) for many years to come, Senate Bill 1269 and House Bill 2487 will provide some relief to the increasing ERS liabilities.

Since our pension fund is over \$11 billion in assets and we pay out more than \$1 billion in pension payments annually to about 40,000 pensioners, we have undertaken work to provide for an internal audit assessment and processes that will strengthen our controls, security, and accountability over the large amount of receipts and payments handled by ERS staff, contractors, and consultants. We will update you on our progress with this effort.

We will be looking at conducting surveys in the near future to help improve our services. Information on these surveys will be provided in our upcoming newsletters. We hope that you are having a good year, and that the rest of 2012 is even better.

Aloha,  
Wes Machida

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## Report from Rod June, Chief Investment Officer

"Buy low, sell high." Many of us have heard this adage but what does it mean in practical terms? This article addresses the methodology of *portfolio rebalancing* to ensure an investment discipline that is true to the investment philosophy of buy low/sell high.

To illustrate this concept, we start with a fictitious investment portfolio valued at \$200 with asset class policy targets established at 50% for equities (i.e., stocks) and 50% for bonds. A tolerance band percentage is established above and below each policy target to indicate when a rebalance should be initiated. In this example, we will employ equity and bond tolerance bands of 20% and 10% above and below their policy targets, respectively.

Let's assume that equity values rose resulting in an equity asset class value of \$120 and that bonds declined resulting in a bond asset class value of \$90. At these new asset valuations, the tolerance band thresholds have been reached, and a rebalance will be initiated that brings the portfolio back to its 50% equity/50% bond weightings by selling \$15 from the equity asset class ( $\$120 - \$15 = \$105$ ) and simultaneously buying \$15 in bonds ( $\$90 + \$15 = \$105$ ). Upon completion of this exercise, the portfolio is restored to its original policy targets of 50% equity and 50% bonds, each with a new asset class value of \$105 equaling a total portfolio value of \$210.

Why do we sell some of the rising equity assets and buy more of the declining bond assets rather than buy more of the rising equities and sell off more of the declining bonds? The basic logic is that asset classes do not trend in one single direction for an extended period of time, and eventually reverse direction during a market correction. Using the rebalancing methodology described in this article keeps the portfolio's return and risk profile constant over time and true to the investment philosophy of *buy low/sell high*.

# If something doesn't feel right to you, it probably isn't

In March 2012, Mrs. T, the surviving spouse of one of our members, received what seemed to be a legitimate phone call from the ERS. "Good morning, Mrs. T. This is a representative from Employees' Retirement System (ERS) calling to inform you that your late husband has a death benefit payable from the ERS. As the surviving spouse, you are eligible for a lump sum death benefit of \$5,000. However, we need to verify your social security number and birth date to process the payment," the caller said.



Mrs. T gave her social security number and birth date to the caller.

A few days after Mrs. T received this call, the ERS was contacted by her daughter. She was suspicious that the ERS would ask for her mother's social security number and birth date. Thanks to the vigilance and prompt action of this concerned daughter, we were able to confirm that no ERS representative called her mother for this information. The ERS advised Mrs. T's daughter to file a police report and obtain credit bureau reports of any unauthorized use of her mother's personal information.

As she followed up immediately, hopefully, this surviving spouse's credit has not been compromised; however, you should never disclose your social security number, birth date, bank account number or other personal identification information over the phone to anyone who asks for it. You should be aware that there are many sophisticated "scams" by individuals trying to steal your identity. Some, as in the situation described here, will appear official and legitimate by using a familiar entity like the ERS. It is extremely rare that the ERS would call a beneficiary or member to request any personal information. In situations of death benefits, the ERS sends a letter to the designated beneficiary and the beneficiary, in turn, would submit a death claim form for the ERS to process the death payment. At most, the ERS will contact a member or beneficiary and provide data that may need to be verified. You should always feel free to contact the ERS directly (refer to our contact information in this Holomua) if you are uncomfortable about any ERS call you receive.

We hope this story will remind you that you must always be on alert for possible frauds and scams. If you have that initial feeling that something is not right about disclosing personal information, you are probably correct. Act on your intuition immediately, initiate the help of family members or those you trust and check your bank or credit accounts frequently. If you find that you are a victim of identity theft, you can file a complaint with the FTC (Federal Trade Commission) Identity Theft Hotline at 1-877-IDTHEFT (438-4338) or at their website: <http://www.ftc.gov/bcp/edu/microsites/idtheft/>

A screenshot of a web browser displaying the FTC's Identity Theft site. The browser's address bar shows the URL "http://www.ftc.gov/bcp/edu/microsites/idtheft/". The page has a green header with the text "Deter. Detect. Defend. Avoid ID Theft" and navigation links like "Report ID Theft", "Order Publications", "Privacy Policy", and "FTC Search". Below the header, there are three icons: a padlock for "DETER", a magnifying glass for "DETECT", and a shield for "DEFEND". A navigation bar lists categories: "CONSUMERS", "BUSINESSES", "LAW ENFORCEMENT", "MILITARY", "MEDIA", and "REFERENCE DESK". The main content area is titled "WELCOME TO THE FTC'S IDENTITY THEFT SITE" and features a section for "DETER-DETECT-DEFEND AVOID ID THEFT". It includes a paragraph about the site's purpose and a video player with a play button. The video player shows a woman's face. The page also has a "Hot Links" section with links like "What is phishing?" and "Use Our Materials In Your Community".



# New website . . . New perspectives

The new ERS website has been redesigned with a member friendly perspective making it easier to find information about your retirement system. As noted in the Holomua and other ERS publications, you may access our website at the following address: <http://ers.ehawaii.gov>

The home page instantly updates members with ERS news and latest tweets about ERS activities. At a quick glance the calendar displays meeting notices, basic information sessions and workshops happening around the State.

The “Members” tab offers topics such as ERS benefits under the various plans, reporting the death of a member, leaving employment and retirement planning. There is also a section just for “Retirees” that provides them with pension information and pension forms.

A new “Employers” section provides the latest information to our personnel and payroll departments regarding enrollment and pay breakdowns. The personnel and payroll departments play a vital role as partners in ensuring our members’ service and compensation are reported correctly and in a timely way.

In the general “Resource” tab you will find information about the Board of Trustees, financial reports and a glossary of terms, just to name a few of the common items of interest.

Located on the right border, the ERS is now available via email - just click on “ERS” and a message page is created instantly from your email server. Have you checked out the website and read the publications, but still have unanswered questions? Call us or send us an email for more information.

Did you like the new layout? Were you able to locate all the information you needed? Would you like to see a specific topic? Let us know how we are doing by filling out a quick “Feedback” survey located at the bottom (footer) section of the page.



## Annual post-retirement increase due in July 2012

Qualified retirees (with retirement dates prior to 2012) and beneficiaries will receive their annual post-retirement increase in July. You may recall that the increase is 2-1/2% of your base pension amount. Semi-monthly payees will receive their increase on July 13, 2012 and monthly payees will receive their increase on July 31, 2012.

In addition to the post-retirement increase, you will also receive your annual Statement of Retirement Allowance and Deductions. Please keep the payment statement you receive as a record of your current allowance as the ERS issues statements only when there is a change in the pension amount. The payment statement will show the gross payment amount authorized deductions being withheld and the net payment amount. Please confirm the net payment amount with your bank statement before contacting ERS about any pension amount discrepancies.

As the annual Statement of Retirement Allowances and Deductions is sent directly to your mailing address, please remember to update the ERS of any changes in address in order that we may ensure proper delivery of this essential and confidential information. You may contact the ERS by phone or access the address change form at our website by clicking on “Pension Forms” under the “Retirees” tab.

## Hawai'i Employer-Union Health Benefits Trust Fund (EUTF) Information from the EUTF – on the new Prescription Drug Plan

The EUTF has changed its pharmacy benefit manager from informedRx (HMSA/Medco for HSTA VB BU 05/45 retirees) to CVS Caremark SilverScript for Medicare retirees.

In our March 2012 article, we focused on non-Medicare Retirees. This article focuses on Medicare retirees.

Here are the basic points you need to know now:

<b>When does the change take place?</b>	<b>July 1, 2012</b>
<b>What plans do they replace?</b>	Medicare Part D prescription drug plans for informedRx and HSTA VB HMSA/Medco
<b>Do I have to re-enroll?</b>	No. To remain in the EUTF Sponsored Medicare Part D prescription drug plan do nothing. You will be <b>automatically</b> enrolled in the CVS Caremark SilverScript plan.
<b>Can I “opt out” or cancel coverage?</b>	You may choose to disenroll or “opt-out” of this EUTF Medicare Part D plan. If you choose to opt-out, EUTF will cancel your plan effective July 1, 2012, and you will need to enroll in other drug coverage which you pay for. To opt-out you must complete the form included in your Pre-enrollment Packet that CVS mailed to your home or contact CVS Caremark SilverScript toll-free at 1-877-878-5715. As a reminder, HSTA-VB Retirees who choose to opt-out from the drug plan will also be disenrolled from the HSTA VB Medical and Vision plan, since the prescription drug plan is bundled with the medical and vision plan.
<b>Will I receive new ID cards?</b>	<b>Yes.</b> In June. Please be sure to update your address if you have recently moved to ensure that receipt of these cards is not delayed. For retirees who use a PO Box address for mailing, you must also provide a street address. Contact the EUTF to update your address.
<b>When will I receive information on how to obtain my prescription drug benefits?</b>	In May CVS Caremark/SilverScript mailed a Pre-Enrollment Packet along with ID cards to everyone enrolled in informedRx or HSTA VB HMSA/Medco Medicare D drug plan. The Pre-enrollment Packet contained a lot of information that is mandated by the federal Centers for Medicare & Medicaid Services (CMS) and may be confusing. Please contact CVS Caremark SilverScript toll-free at 1-877-878-5715 for questions you may have regarding the Pre-enrollment Packet.
<b>Can I still use my regular pharmacy if it isn't a CVS/Longs Pharmacy?</b>	<b>Yes.</b> You may still use your pharmacy for your medications. CVS Caremark SilverScript's participating pharmacy network has many pharmacies for you to choose from. Be sure to check that your regular pharmacy participates in CVS Caremark SilverScript's network of pharmacies to receive the best pricing, by calling CVS Caremark SilverScript EUTF Customer Care line toll-free at 1-877-878-5715.
<b>Who do I contact if I do not receive my Welcome Kit, Pre-enrollment Packet or ID cards; or have additional questions?</b>	Please call the CVS Caremark SilverScript EUTF Customer Care line toll-free at 1-877-878-5715. A customer care representative who specializes in Medicare Part D will be able to assist you and answer your questions.

We ask that you be on the lookout for mailings regarding the change to CVS Caremark that will be mailed to you. We need your help to make this as smooth a transition as possible.

**Important:** The EUTF is a separate organization from the ERS. If you have any questions about information in this article, **please DO NOT contact ERS**. Please contact the CVS Caremark SilverScript Customer Care line (**for Medicare retirees**) toll-free at 1-877-878-5715 or CVS Caremark's Customer Care line (**for non-Medicare retirees**) toll-free at 1-855-801-8263.

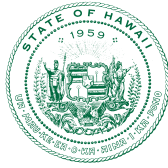


## Employees' Retirement System

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# Holomua

Retirees

April/May/June 2012



## Ask ERS

### Answers to some frequently asked questions on the ERS new website

**Q:** Where can I get a schedule of my pension payment dates?

**A:** On the ERS website, under the RETIREES tab select "PENSION INFO." Under the "PENSION INFO" tab you will find information on pension payment dates, final pension adjustment, taxation, and more.

**Q:** Do I need to notify the ERS if a pensioner or beneficiary dies?

**A:** Yes. On the ERS website, under the RETIREES tab select "RETIREES DEATH." The death category provides step-by-step information on what to do and who to contact in the event of a death.

**Q:** What if I still have questions, not relating to a pension or death?

**A:** If you still have questions, be sure to check out the section under the RETIREES tab labeled "RETIREES FAQs." The FAQs covers everything from the post-retirement increase to many tax related questions.

## How to Contact Us

**Monday-Friday 7:45 a.m. - 4:30 p.m.**  
(except State holidays)

**Oahu** Office, Phone: (808) 586-1735

**Kauai** Office, Phone: (808) 274-3010

**Hawaii** Office, Phone: (808) 974-4077

**Maui** Office, Phone: (808) 984-8181

**Molokai & Lanai**, toll free to Oahu:  
1-800-468-4644, ext. 61735

**Continental U.S.** toll free to Oahu:  
1-888-659-0708, ext. 61735